Published Weekly by
AMERICAN INSTITUTE
for ECONOMIC RESEARCH
Great Barrington, Massachusetts 01230

RESEARCH
REPORTS

September 15, 1969

Poverty Among the Elderly

During the past several decades, the Federal Government has assumed responsibility for providing "solutions" for an increasingly broad range of social and economic problems. In almost all instances, a principal ingredient in the solutions prescribed has been payment of funds by the Government to the individuals or groups adversely affected by the problem. Thus, judging by the experience of these past decades, almost all problems encountered by any segment of society or sector of the economy apparently, in the opinion of Federal officials, have had one common causal element; namely, a lack of adequate funds available from non-Government sources. At least, if the remedy always includes some form of Federal financial aid, the conclusion that a lack of sufficient funds was among the causes of each of the diverse problems, seems inescapable.

Within the past few weeks, the U.S. Senate's Special Committee on Aging made public a report prepared by a study group that had investigated the economic problems confronting the Nation's older citizens. This type of "study," prepared either for a legislative committee or a division of the Administrative branch of Government, frequently in the past has provided the basis for legislation introduced later in order to implement the Government's desire to "solve" the problem involved. Therefore, the contents, conclusions, and recommendations of this and other such "studies" deserve careful consideration.

The investigators who conducted this study of the economic position of the aged reported that:

(1) Retired Americans are suffering from an income gap in relation to younger people. Evidence of this aspect of the situation is revealed by the fact that the median income of families with an aged head was 51 percent of that for younger families in 1961, but only 46 percent in 1967. Also, 3 out of 10 individuals 65 and older were "living in poverty" in 1966, compared to only 1 in 9 among younger people.

(2) Low income is the principal problem facing most of the 20 million persons 65 years or older. About 5 in 10 families with an aged head had less than $4,000 income in 1967; for about 1 in 5 such families, income then was less than $2,000. Among older people living alone or with nonrelatives, one-half had incomes less than $1,480, and one-quarter had $1,000 or less, in 1967.

The report places especial emphasis on the statement that *many of these aged individuals did not become poor until they became old.*

Among the factors contributing to the financial difficulties confronting many of the Nation's older citizens, the report cited the following:

(1) An increasing number of Americans are retiring earlier (before age 65) and living longer than formerly, thus extending the average period of retirement.

For example, during recent years more than one-half of the men retiring have done so before reaching age 65. About one-half of all individuals now 65 or more are 73 or older. According to projections, in the years ahead the increase in the number of elderly citizens will be particularly great at the oldest ages. Present estimates indicate that the portion of the population 65 and older will be 50 percent greater in 1985 than it was in 1960, but the number 85 and older is expected to double during the 25-year period.

(2) Inflation (as used in this study, the name inflation means higher prices) erodes the purchasing power of the pensions, social security payments, and other sources of fixed income of retirees. An annual rise of only 2 percent in the general level of prices will reduce the purchasing power of fixed incomes by 18 percent after one decade and by 33 percent after two decades.

(3) Rapidly rising medical and hospital costs, augumented by the increasing need for these services that usually accompanies increasing age, involve an onerous financial burden for many elderly individuals.

(4) The increasing costs associated with home ownership presents an especially difficult problem during retirement years.

Although the foregoing problems are of immediate concern to individuals who already have retired, this study urged that they not be overlooked or ignored by middle aged and younger families who will be confronted with a similar or perhaps more difficult situation when they retire in the future.

In this connection, the investigators apparently reached the unjustified conclusion that most individuals are either incompetent or unwilling properly to manage their own financial affairs. They stated that "most parents today face a common problem: How can they allocate earnings to meet current obligations to their families and still have something left over to save for retirement?" In answer to this question, they stated that "the margin for saving, the excess of income over consumption expenditures, has been relatively small for most families during most years of the work life, especially for workers in the less-skilled occupations. In addition, with an outlook for sustained economic growth, how realistic is it to expect today's workers *voluntarily* to forgo consumption in order to save for the years ahead when this requires that they significantly reduce their present standard of living to provide for an uncertain and distant old age?"

As a result of their "study," the investigators recommended the following course of action in order to "solve" the problem of poverty among the elderly.

"If old age is to be more than a period when people decline and die, some way must be found whereby the

aged, who have helped in the past to provide the basis for rising living standards, are guaranteed a share in some of the 'harvest fruits.' What this requires is a substantial transfer of income from the working to the retired population in order to improve the relative economic status of the aged.

"Such assurance can best be provided, or can only be provided, through Governmental programs, particularly the social insurance system..."

That retired individuals whose income is relatively fixed in dollar amount have been among the principal victims of the almost continuous rise in prices that has occurred during the past quarter century is unmistakably clear. The purchasing power of their incomes has diminished year by year until it now is less than half what it was originally for anyone who retired 25 or more years ago. Moreover, a long continued upward trend of prices tends to "punish" anyone who saves for a later "rainy day." Thus, the incentive to save a portion of one's current income in order to provide for an "uncertain and distant old age" has been seriously undermined by the persistent rise in prices during the past quarter century.

Nevertheless, to allege that most workers do not have sufficient excess earnings to save voluntarily for their future retirement and that they must, therefore, be forced by Government mandate to transfer a substantial portion of their incomes to the retired population involves an obvious contradiction. How can the Government hope forcibly to extract from workers, excess earnings that supposedly do not exist?

An even more serious deficiency in the reported results of this study is the failure to give any consideration to the possible benefits that would accrue to both working and retired individuals if inflating were halted. The investigators reveal recognition of the fact that continued depreciation of the purchasing power of the dollar is the principal cause of the problem for which they seek a solution. However, the recommended solution does not even suggest that remedial action to cure this basic cause of the problem be considered; rather, it is based on the implicit assumption that this cause apparently is beyond cure.

Evidently, the investigators who conducted this study are afflicted with the same "blind spot" that has hampered the efforts of many others who have attempted to "solve" problems attributable to inflating. That "blind spot" is failure to understand that rising wages and prices are among the usual results, but are not the cause of, inflating, which is the process of creating excess purchasing media.

To trace the problem of poverty among the elderly back to the rising trend of prices is a commendable first step in analyzing the problem. However, to end the investigation at that point is to stop short of ascertaining why prices have been rising persistently for many years. Carrying the investigation one step further would have revealed that the persistent rise in prices (including the price of labor) during the past quarter century has been one of the results of the almost continuous creation of excess perchasing media by the banking system during that period. Until this inflating process is ended, attempting to suppress the ill effects of continually rising prices will prove as futile as attempting to roll back an incoming ocean tide.

On the other hand, if Government and monetary officials have the wisdom and the courage to stop inflating and to reapply the principles of sound commercial banking, a relatively stable price level could be expected in the future. Under those conditions, retired citizens would not be forced to accept a continuously diminishing standard of living. Moreover, working citizens then could (and judging by past experience, most of them would) provide for much of their own retirement needs without coercion from the Government.

STATISTICAL INDICATORS OF CYCLICAL TRENDS

Among the leading indicators, the net change in consumer installment debt decreased during July, and the average workweek decreased during August. The latter decrease removed doubt that the average workweek is contracting cyclically. The group percentage expanding remained at 25.

Among the roughly coincident indicators, a revision of retail sales data for recent months included a decrease for this series during July instead of the increase previously reported. The series reportedly increased during August. Whether or not record sales during April represented a cyclical peak connot be ascertained until data for another 2 or 3 months become available. Nonfarm payroll employment and the inverted total unemployment rate increased during August.

Among the lagging indicators, anticipated expenditures for plant and equipment were revised downward for the final three quarters of 1969; smaller increases were projected for the second and third quarters, but a decrease was expected during the fourth quarter. Commercial and industrial loans decreased for the third consecutive month in August, and the series probably is contracting cyclically. The percentage of lagging indicators expanding decreased from 83 to 67.

Apparent cyclical expansion of only one-quarter of the primary leading indicators justifies doubt that the expansion of general business activity will long continue.

SUPPLY

AUTOMOBILE PRODUCTION, SALES, AND INVENTORIES

Automobile manufacturers in the United States produced about 5.3 million new cars during the first 8 months of this year. This was 5.4 percent less than the number produced during the corresponding period of 1968 and was 15 percent less than the record number produced during the first 8 months of 1965.

Sales of about 5.6 million domestically-made new cars during the first 8 months of this year were almost 2 percent less than those during the corresponding period last year and were nearly 5 percent less than the record amount during the similar 1965 period.

Inventories of new cars in dealers' hands decreased seasonally from 1,700,000 at the end of June to 1,483,000 at the end of July and to about 1,308,000 at the end of August. Large reductions in dealers' stocks usually occur during the summer, when the major automobile manufacturers suspend production for several weeks while retooling for the manufacture of new-model-year cars. However, automobile sales have decreased more rapidly than production during recent months. Consequently, the inventory-to-sales ratio increased for the third consecutive month during August to 2.36, which was a record for that month. This ratio has not been less than 2.12 during the first 8 months of this year and has averaged 2.39, which is by far the largest 8-month average on record.

Sales of domestically made new cars were 10 percent less during July and nearly 13 percent less during August than those during the corresponding months a year earlier. Unless such sales soon improve markedly,

SALES OF DOMESTIC AUTOMOBILES
1967-68-69

Month	*1967*	*1968*	*1969*	*Percent Change From Year Earlier*
January		631,000	646,000	+ 2.4
February		624,000	663,000	+ 6.3
March		768,000	723,000	– 5.9
April		730,000	755,000	+ 3.4
May		812,000	795,000	– 2.1
June		781,000	799,000	+ 2.3
July		737,000	663,000	–10.2
August		635,000	555,000	–12.6
September	549,000	564,000		+ 2.7
October	668,000	886,000		+32.6
November	620,000	787,000		+26.9
December	615,000	679,000		+10.4

automobile manufacturers will be obliged to curtail their rates of output further in order to reduce the excessive stocks of unsold new cars in dealers' showrooms. At present, the outlook for future sales is not favorable. As we noted in a previous article, adverse trends in the prices of common stocks during recent years have been associated with automobile sales smaller than those of a year earlier. The marked contraction in common stock prices during recent months leads us to expect that new car sales will continue to be less than those of a year earlier during the next several months, at least.

Only one-quarter of the primary leading indicators of business-cycle changes currently are expanding cyclically, which is the smallest proportion in about 2½ years. The percentage of primary leaders expanding has decreased almost continuously from 75 percent late in the summer of 1968. An upsurge in the sales of new automobiles in such circumstances would be surprising.

We expect sales of new automobles to continue to be disappointing during the months ahead. In this event, automobile production probably will be curtailed in order to enable dealers to reduce their excessive inventories.

INDUSTRIAL PRODUCTION

Production of steel, automobiles, electric power, and lumber (1) in the 1- and 4-week periods ended on the indicated dates in the current year and (2) in the corresponding periods of earlier years was as follows:

Steel	*1929*	*1932*	*1957*	*1961*	*1968*	*1969*
Ingots, etc.—million tons						
1 week: September 6	1.21	0.21	2.07	2.03	1.86	2.62
4 weeks: September 6	4.97	0.91	8.34	8.02	7.80	10.44
Automobiles						
Vehicles—thousands						
1 week: September 6	92	17	88	83	112	138*p*
4 weeks: September 6	391	79	452	253	283	490*p*
Electric Power						
Kilowatt-hours—billions						
1 week: September 6	1.7	1.5	11.7	15.8	24.3	28.8
4 weeks: September 6	6.9	5.8	48.3	63.2	105.8	118.9
Lumber						
Board feet—billions						
1 week: August 30	0.68	0.20	0.71	0.67	0.68	0.65
4 weeks: August 30	2.72	0.80	2.84	2.71	2.73	2.55

p Preliminary.

DEMAND

CONSUMER INSTALLMENT CREDIT

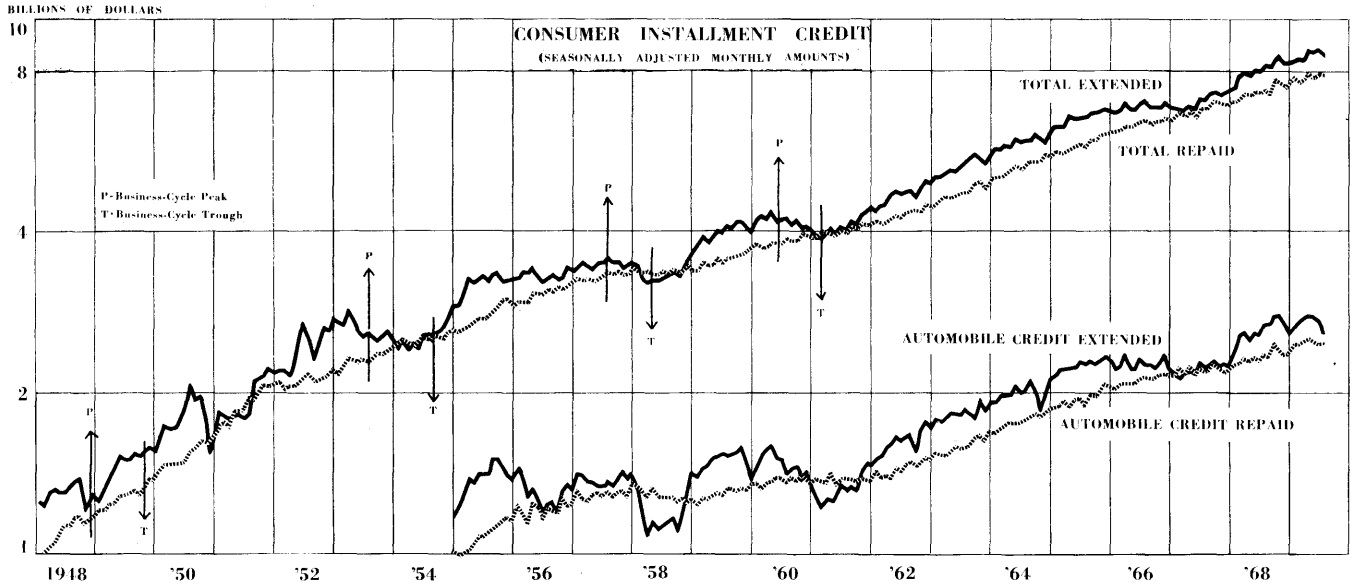
Note: Data other than the total outstanding are seasonally adjusted.

Unadjusted consumer installment credit outstanding at the end of July totaled $93.8 billion, which was 11 percent more than that of a year earlier. The seasonally adjusted net increase (extensions less repayments) in consumer installment credit during July was $622 million, which was the smallest monthly increase since March, 1968.

The amount of new installment credit extended during July was about 2 percent less than that during June but was 3.3 percent more than that extended during July 1968. Repayments of installment credit during July were 0.1 percent less than those of a month earlier but nearly 7 percent more than such repayments during the corresponding year-earlier month.

Among the major categories of consumer credit, the amount of installment credit extended for purchasing automobiles during July was 5 percent smaller than the June total and 3.4 percent smaller than that during July 1968. Such extensions account for much of the cyclical variation in total extensions. The amount of automobile installment credit extended during July was about 7 percent less than the record amount extended during September 1968. Repayments of automobile installment loans increased 0.4 percent from June to July and were 5 percent more than those during July 1968.

Installment credit extended for the purchase of other consumer goods (including general merchandise, apparel, appliances, and furniture) was 3.2 percent less during July



than it was a month earlier but nearly 6 percent more than the amount extended during the similar year-earlier month. Repayments of such credit decreased 3.5 percent from June to July but were 5.7 percent more than those during July 1968. Personal installment loans extended during July were nearly 3 percent more than those during June and were about 8 percent more than those during July a year earlier. Repayments of such loans increased 2.3 percent during July and were almost 10 percent more than those during July, 1968.

The third consecutive monthly decrease during July in extensions of installment credit for purchasing automobiles suggests that this series may have begun to contract cyclically. As the accompanying chart shows, this series sometimes has fluctuated erratically from month to month. However, three consecutive monthly decreases in the series usually have involved a cyclical contraction.

A diminishing rate of increase in the amount of consumer installment credit outstanding during the next few months would not be surprising.

DEPARTMENT-STORE SALES

Sales of department stores reporting to the Bureau of the Census compare with those of corresponding periods a year earlier as follows:

Period	*Percent Change*
Week ended September 6	+ 1
Four weeks ended September 6	+ 2

PRICES

COMMODITY PRICES

	1968	*1969*	
Index	*Sept. 8*	*Sept. 2*	*Sept. 8*
Spot-market, 22 commodities	251	295*	295*
Commodity-futures	285	293	293
Steel-scrap	$24.00	$35.67	$35.67

*For the preceding Tuesday.

BUSINESS

EMPLOYMENT AND UNEMPLOYMENT

Note: All data are seasonally adjusted.

According to the latest report of the Bureau of Labor Statistics, employment conditions from the point of view of employees remained moderately favorable through August. Employment increased (but at a decreasing rate), and unemployment rates among most worker groups decreased, but not significantly, from those during July. Overtime hours worked in manufacturing remained unchanged at a high level, but average weekly hours of production workers decreased slightly.

Civilian employment increased 0.4 percent from July to August, following a similar rate of increase during June and July. The number of workers on nonagricultural payrolls increased 167,000 from the downward-revised July total to a record 70,436,000. This was the twenty-first increase in nonfarm employment during the preceding 24 months. About two-thirds of the August increase was attributable to increased auto production schedules following the model changeover; the remaining portion of the increase occurred in service occupations. Employment in manufacturing increased 120,000 from July to August; durable-goods payrolls increased 128,000, but nondurable-goods payrolls decreased 8,000. Employment in construction decreased markedly because of strikes and continuing decreases in the number of houses started.

The total number of persons unemployed decreased 15,000 to 2,867,000, or from 3.6 percent of the civilian labor force in July to 3.5 percent in August. However, this number still was about 264,000 more than the recent minimum of 2,603,000 reached in December 1968. The unemployment rate for primary breadwinners (married men, full-time workers) decreased from 1.6 percent to 1.5 percent during August. The unemployment rate for teenagers increased to 12.5 percent, as pre-school departures from jobs were not quite offset by withdrawals from the labor force. The rate for white workers remained at 3.2 percent, but that for non-white workers increased from 6.4 percent to 6.5 percent.

During August, the average workweek in manufacturing decreased to 40.6 hours after remaining stable at 40.7 hours for three preceding months. The average weekly overtime component of this series, however, remained unchanged at the high level of 3.6 hours, as decreased overtime in durable-goods manufacturing was offset by increased overtime in nondurable-goods manufacturing.

The August decrease in the total unemployment rate probably was only a temporary interruption of the increasing trend of this series. The inverted series, which is a coincident indicator of business-cycle changes, appears to be contracting cyclically from a peak reached last December. The increase in nonagricultural employment during the 5 months ended in August was at an average rate smaller than that during the preceding 5 months. This coincident indicator of business-cycle changes thus may be approaching a cyclical peak. These developments suggest that efforts to curtail the business boom may have begun to affect employment conditions adversely.

Further deceleration in the growth of employment during the next few months would not be surprising.